

AR37

# Prairie Oil Royalties

COMPANY, LTD.

## 1965

ANNUAL REPORT





# PRAIRIE OIL ROYALTIES COMPANY, LTD.

## To the Shareholder:

The Board of Directors of Prairie Oil Royalties Company, Ltd. is pleased to present the Annual Report of the Company for the fiscal year ended June 30, 1965, together with the audited financial statements as of that date.

### production

Net daily oil production for the year under review was 878 barrels, a gain of approximately 45% over the 606 barrels per day average of the preceding year. The Company's net gas production averaged 3,081 Mcf./day over the year compared to 1,160 Mcf./day a year ago. The large increase in daily gas production reflects the first full year of sales from the Company's Acadia, Alberta gas wells which were connected to pipeline in December, 1963.

### financial

The Company's gross income for the fiscal year just ended reached a record high of \$868,587. This is an increase of about 51% over the \$574,677 received during the preceding year and is due to the previously noted improvement in oil and gas production rates. Operating profit, before deduction of dry hole and related exploration costs and all non-cash write offs, was \$574,694 contrasted to \$359,843 for the comparable 1963-64 period. Net profit without provision for any future income tax liability was \$143,398 for the 1964-65 fiscal year.

Increased exploratory and development expenditures incurred by the Company during the past year resulted in a reduction in working capital from \$542,882 to \$198,670 at year's end. In addition the Company borrowed on a production loan, the outstanding long-term balance of which was \$265,000 at June 30, 1965.

### exploration and development

Varying interests were held in 43 gross exploratory or development wells drilled during the period under review, equivalent to 18.1 net wells. This program yielded 17 oil (net 8.6) and 4 gas (net 0.77) wells for the Company. Twenty-four (net 9.34) of the total number of wells drilled were classified as exploratory ventures which resulted in five oil (net 1.83) and one (net 0.17) gas discoveries. The results of follow-up drilling programs conducted in the discovery areas, the locations of which are shown on a map of Western Canada included in this report, are reported in the following discussion.

Follow-up drilling in the East Sarah Lake (33⅓% interest) and Kinuso (16% interest) indicated discovery areas of Alberta was unsuccessful. Four wells were drilled and abandoned in the former area, while two additional wells situated in the Kinuso area also failed to obtain oil production. In both cases the discovery wells have not produced satisfactorily and have therefore been suspended.

At Bryant, Saskatchewan, two productive zones were encountered in the discovery well, Prairie Oil VR Bryant 5-5-5-8, in which a 66⅔% interest is held.

The initial completion was made in the Midale zone which was capable of producing approximately 15 BOPD after an extended producing period and the second productive zone, the Frobisher-Alida beds, has now been placed on production at an average rate of 30 BOPD. However, two follow-up wells were drilled and abandoned in the area, one offsetting the discovery well to the west and the other one mile to the southwest. In order to fully evaluate this discovery area, an exploratory well will be drilled in the immediate future.

Four development oil wells were completed in the North Ebor, Manitoba discovery area in which a 33⅓% interest is held by the Company. Further development operations were suspended at that point in order to allow time for sufficient production history to be obtained from the five producing wells to assess fully the commerciality of this new field. Another well is planned for the S. Maples area, Manitoba, as a follow-up to the marginal S. Maples 7-35-9-26 discovery well.

The Company holds a 16⅔% interest in a gas discovery well, Drum 7-7-30-19, which was drilled in the Drumheller area. This well was completed with an absolute open flow potential of 8,300 Mcf. per day. Two additional gas wells were subsequently drilled in the immediate area, and, together with the discovery well, have been shut in awaiting a market outlet for the production. The Company's net interest in these three wells is equivalent to ownership of 0.77 gas wells.

Other development areas in which the Company was active included the Medicine River Field, Alberta, where one 50% interest oil well was completed and in the Oyen Gas Field where a 33⅓% interest was held in a dual zone gas completion. The latter well, together with the lands on which it is situated, has now been included in the Oyen Gas Unit. In Saskatchewan, three wholly owned oil wells were drilled in the Northgate Oil Field, while in Manitoba two one-third interest oil wells were placed on production in the Virden Oil Field.

In April, 1965 a Mississippian oil discovery of possible significance to the Company was made at the CEGO et al Northgate 15-10-1-2 well in the Elcott area of Southeastern Saskatchewan, approximately six miles east of the Northgate Field. The Company owns lease and mineral interests aggregating 2,000 acres about one and one-half miles southwest of this discovery. Three follow-up development wells have now been drilled by the same operators with the results to date showing considerable variation in initial production rates. Nevertheless this development is considered encouraging in view of the Company's land position and an early start is planned for the drilling of a well on or offsetting these holdings.

## royalties

Royalty interests provided approximately 70% of the Company's total oil production and are expected to continue as a major source of the Company's income in the future. For the third successive year the number of oil wells drilled on the Company's royalty interest lands increased over that of the preceding year. There were 80 successful completions recorded for the 1¼% royalty-interest properties in Southwestern Saskatchewan while in Southeastern Saskatchewan, where the royalty interest varies between 2½ and 12½%, another 30 oil wells were completed. By comparison, during the 1963-64 fiscal year there was a combined total of 70 wells completed in both regions of the Province.

A portion of the Company's 2½% royalty-interest lands is situated in an area immediately north of the Midale and Weyburn Oil Fields of Southeastern Saskatchewan where two discoveries of possible significance were recently reported.

The first was the Bakken formation oil discovery, Scurry Canso Midale 11-1-7-11, which is located in close proximity to Company royalty tracts. This is the first commercially productive zone encountered stratigraphically lower than the producing Mississippian beds in this particular area and therefore enhances the general geological prospects of these royalty lands. The second important find was made in the Innes area about six miles north of the Midale Field at the Mich Wis et al Innes 1-36 well which is situated on Company royalty-interest lands. The producing zone in this well is the Frobisher-Alida beds of Mississippian age with gross pay thickness reported to be in the order of 80 feet. Follow-up development drilling by the operators in the Innes area is now taking place with six oil wells completed on Company royalty interest lands.

land

Although the Company continued an active exploratory program, total landholdings remained relatively unchanged with acquisitions approximately offsetting surrenders. At year end varying interests were held in lease, mineral and permit lands aggregating 1,884,272 acres equivalent in ownership to 363,350 net acres. The comparable figures recorded at the end of the preceding year were 1,893,856 and 362,609 acres. In addition the Company holds royalty interests varying between 1¼% and 12½% in 527,156 acres. A summary of these holdings by provinces or territories is presented elsewhere in this report.

## British Columbia Oil Lands Ltd.

The Company owns 333,522 shares of British Columbia Oil Lands Ltd. and continues to act for that Company as its manager and agent. In view of this shareholding, which represents 35.2% of the outstanding shares, a brief report on the activities of British Columbia Oil Lands Ltd. is presented herein for the benefit of Prairie shareholders.

The major interests held by British Columbia Oil Lands Ltd. comprise landholdings in the proven and prospective gas areas of the Fort Nelson district, Province of British Columbia. A summary of these holdings, as reported by British Columbia Oil Lands Ltd. in its 1965 Annual Report, is presented below. In addition, a map is included elsewhere in this report illustrating the location of these holdings relative to developments which have taken place in that area.

Landholdings of British Columbia Oil Lands Ltd. in the Fort Nelson Area at March 31, 1965 were as follows:

ACREAGE	TYPE	INTEREST	OPERATOR
242,637	Lease	25% net profit	Pacific Petroleums Ltd.
243,287*	Lease	12½% carried	Pan American Petroleum Corporation
41,062	Lease	12½% carried	} British American Oil Company Limited- Pan American Petroleum Corporation
11,152	Lease	25% carried	
102,642**	Lease	12½% carried	Imperial Oil Limited — Pan American Petroleum Corporation
30,406	Permit	15% working	Pan American Petroleum Corporation

\* Leases totalling 84,473 acres were surrendered April 25, 1965.

\*\* This acreage was surrendered April 25, 1965.

Encouraging developments have taken place over the past year relating to the prospects for eventual marketing of gas from the British Columbia Oil Lands' properties. In January, 1965, the Westcoast Transmission Company's pipeline and gas gathering system facilities serving the Fort Nelson area commenced operations. Initial gas shipments to this system are being produced from the Clarke Lake Field with other fields to be connected at later dates as additional gas market outlets are developed. In this regard Westcoast Transmission recently an-

nounced that it is currently negotiating for the sale of a large new block of natural gas in both export and domestic markets. At the same time it was stated that El Paso Natural Gas Company is currently studying its requirements for the Pacific Northwest area and plans to open discussions with Westcoast this year regarding purchase of additional gas from Westcoast.

An important gas discovery possibly benefiting a portion of the British Columbia Oil Lands' 25% net profits interest properties was made in the 1964-65 drilling season at the Socony Sierra c-78-C well. This well, which encountered commercial gas production in the Middle Devonian, is located three miles south of a 4,000-acre lease block, to which the above interest applies, in the Yoyo area. A second successful well was subsequently drilled one and one-half miles north of the discovery and about the same distance south of the above-mentioned lease block. The significance of this discovery lies in the fact that it is not situated on any previously established productive reef trend.

In October, 1964 British Columbia Oil Lands Ltd. joined with other Canadian independent companies in a program acquiring and developing Crown leases within the proven limits of the Mitsue Oil Field, Alberta. This program resulted in that Company initially acquiring an 11.56% interest in 2,240 acres of leases and a 5.78% interest in an additional 1,920 acres at subsequent land sales. Development operations are now completed with seven successful oil wells having been drilled on the properties.

## Arctic

The Company holds, through participation in the Pan Arctic Syndicate, a 14% interest in 1,526,214 acres of Petroleum and Natural Gas Permit lands in the Arctic Archipelago. The Company is the manager and agent for this project pursuant to a formal agreement entered into with the participants. Geological studies have shown that the Syndicate's holdings on the Sabine Peninsula, Melville Island, have excellent prospects and an effort is being made to have additional exploratory work conducted thereon in 1966.

## directorate

Late in the fiscal year the Company received, and accepted with much regret, the resignation of Mr. R. R. Rusmisl, a partner of Lehman Brothers, as a director and officer of the Company. Mr. Rusmisl had served as a director since 1951, the year of the Company's incorporation, and contributed a great deal to its growth and development. Mr. D. K. Russell, who is an associate with the Lehman Brothers, New York, was elected to fill the vacancy created by this resignation.

On behalf of the Company the Board of Directors wishes to take this opportunity to express sincere appreciation to the Company's staff for its loyal and wholehearted efforts during the past year.

On behalf of the Board,

SEN. JOHN B. AIRD, Q.C.,  
*Chairman,*

GLENN S. BRANT,  
*President.*

# Land Holdings as at June 30, 1965

## I. Working and Mineral Interests

PROVINCE OR TERRITORY	AREA	TYPE INTEREST	GROSS ACRES	NET ACRES
MANITOBA	Southwestern	Mineral	44,043	13,339
	Southwestern	Lease	32,176	10,806
			<u>76,219</u>	<u>24,145</u>
SASKATCHEWAN	Estevan - Midale	Mineral	18,114	10,352
	Estevan - Midale	Lease	13,926	9,556
	Estevan - Midale	Dr. Reservation	2,080	1,387
	Swift Current	Mineral	7,428	3,714
	Swift Current	Lease	876	876
	Other Areas	Mineral	18,227	9,952
	Other Areas	Lease	290	290
			<u>60,941</u>	<u>36,127</u>
ALBERTA	Acadia - Oyen	Lease	40,640	26,460
	Acadia - Oyen	Permit	5,920	2,960
	Big Bend	Lease	9,599	3,200
	Big Bend	Reservation	95,707	31,902
	Cherhill - Wabamun	Lease	5,746	5,106
	Drumheller - Gartley	Lease	7,838	1,596
	East Sarah Lake	Lease	640	213
	East Sarah Lake	Dr. Reservation	7,680	2,560
	Kaybob - Virginia Hills	Lease	5,286	2,258
	Kinuso	Lease	1,916	307
	Kinuso	Dr. Reservation	7,680	1,229
	Red Deer - Rocky Mtn. House	Lease	4,131	1,381
	Other Areas	Lease	28,115	10,236
			<u>220,898</u>	<u>89,408</u>
ARCTIC ISLANDS		Permit	1,526,214	213,670
TOTAL WORKING AND MINERAL INTERESTS			<u>1,884,272</u>	<u>363,350</u>

## II. Royalty Interests

PROVINCE OR TERRITORY	AREA	TYPE ROYALTY	ACRES
MANITOBA	Southwestern	6¼% gross	1,747
	Southwestern	3½% gross	83,141
			<u>84,888</u>
SASKATCHEWAN	Estevan - Midale	12½% gross	480
	Estevan - Midale	11¼% gross	332
	Estevan - Midale	6¼% gross	4,081
	Estevan - Midale	3¾% gross	480
	Estevan - Midale	3½% gross	320
	Estevan - Midale	2 % gross	160
	Estevan - Midale	7½% gross override	399
	Estevan - Midale	6 % gross override	636
	Estevan - Midale	5 % gross override	13,435
	Estevan - Midale	2½% gross override	219,978
	Swift Current	11 % gross	160
	Swift Current	6¼% gross	802
	Swift Current	1¼% gross override	167,611
	Other Areas	6¼% gross	3,744
			<u>412,618</u>
ALBERTA	Acme	6.51% gross override	160
	Forestview	1¼% gross override	6,390
	Rumsey	2.13% gross override	5,079
			<u>11,629</u>
NORTHWEST TERRITORIES	Fort Liard	2½% gross override	18,021
TOTAL ROYALTY INTERESTS			<u>527,156</u>

from 1¼% to 12½% in

## Balance Sheet

## ASSETS

	<u>1965</u>	<u>1964</u>
<b>CURRENT ASSETS</b>		
Cash .....	\$ 137,331	\$ 20,064
Short term investments, at cost which approximates market .....	—	600,347
Accounts receivable .....	143,737	145,526
Inventory of material and supplies .....	10,775	16,574
	<u>291,843</u>	<u>782,511</u>
<b>INVESTMENT IN SHARES, at cost</b>		
British Columbia Oil Lands Ltd. (333,522 shares) .....	2,009,117	2,009,117
<b>CAPITAL ASSETS, at cost</b>		
Productive properties, less accumulated depletion .....	668,042	319,958
Capped gas wells .....	51,569	—
Non-producing properties .....	1,013,308	720,535
Wells in progress .....	—	87,755
Production equipment, less accumulated depreciation .....	310,148	172,248
Other equipment, less accumulated depreciation .....	18,396	8,357
	<u>2,061,463</u>	<u>1,308,853</u>
	<u><u>\$4,362,423</u></u>	<u><u>\$4,100,481</u></u>

The accompanying notes are

## , LTD.

## LIABILITIES

	<u>1965</u>	<u>1964</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable .....	\$ 33,173	\$ 239,629
Current portion of bank loan .....	60,000	—
	<hr/> 93,173	<hr/> 239,629
<b>BANK LOAN, secured</b> .....	325,000	—
Less current portion due within one year .....	60,000	—
	<hr/> 265,000	<hr/> —
Total liabilities .....	<hr/> 358,173	<hr/> 239,629

## SHAREHOLDERS' EQUITY

Authorized — 2,500,000 shares of \$1.00 each

Outstanding — 1,876,520 shares .....	1,876,520	1,876,520
CONTRIBUTED SURPLUS .....	420,480	420,480
RETAINED EARNINGS .....	1,707,250	1,563,852

SEN. JOHN B. AIRD, Q.C., *Director*

GLENN S. BRANT, *Director*

\$4,362,423

\$4,100,481

PRAIRIE OIL ROYALTIES COMPANY, LTD.

# Statement of Income and Retained Earnings

For the year ended June 30, 1965

	<u>1965</u>	<u>1964</u>
REVENUE		
Production		
Royalty income .....	\$ 500,929	\$ 438,299
Crude oil and gas sales .....	358,052	95,134
	<hr/>	<hr/>
	858,981	533,433
Other		
Interest .....	7,298	20,204
Sundry .....	2,308	14,871
Dividends .....	—	6,169
	<hr/>	<hr/>
	9,606	41,244
Total revenue .....	<hr/> 868,587	<hr/> 574,677
EXPENSES		
Production and administration		
Salaries and employee benefits, less		
management fees received of \$53,700 (1964—\$38,200) .....	77,865	67,891
Production expenses .....	64,332	17,291
Lease rental and mineral taxes .....	50,849	40,997
Trust company fees and expense .....	15,188	6,425
Office rent, utilities and business tax .....	14,202	14,179
Legal fees and expenses .....	13,649	18,442
Land and geological expenses .....	11,951	13,064
Directors' fees and expenses .....	10,371	4,822
Travel and automotive .....	9,519	9,292
Interest .....	8,252	201
Telephone and telegraph .....	4,792	4,131
Office expense .....	4,639	3,839
Miscellaneous .....	3,709	9,840
Insurance .....	2,475	2,270
Audit fees .....	2,100	2,150
	<hr/>	<hr/>
	293,893	214,834
Income before the following items .....	<hr/> 574,694	<hr/> 359,843
Other		
Dry holes and related exploration costs .....	312,312	217,873
Deferred development costs surrendered .....	—	85,793
Unproductive properties surrendered .....	25,943	5,201
Depletion .....	62,360	32,473
Depreciation .....	30,681	9,746
	<hr/>	<hr/>
	431,296	351,086
NET INCOME FOR THE YEAR .....	<hr/> 143,398	<hr/> 8,757
Retained earnings at beginning of year .....	1,563,852	1,552,408
Add		
Adjustments in respect of previous years' income tax .....	—	2,687
Retained earnings at end of year .....	<hr/> \$1,707,250	<hr/> \$1,563,852

## PRAIRIE OIL ROYALTIES COMPANY, LTD.

### Explanatory Notes to Financial Statements

June 30, 1965

#### 1. ACCOUNTING POLICY

Acquisition and exploration costs of properties are capitalized as incurred. Costs of producing properties are depleted on the unit of production method based upon estimated recoverable reserves as determined by the Company's engineers. Dry hole costs are written off when the well is abandoned. Acquisition costs are written off as the Company's properties are determined to be unproductive.

#### 2. INCOME TAX

Although the Company has a net income for the year, the deductions allowed under the Income Tax Act for depletion and for drilling and exploration expenses which have been capitalized have resulted in a loss for the year for income tax purposes.

#### 3. INVESTMENTS

The investment in British Columbia Oil Lands Ltd. consists of 333,522 shares, representing approximately 35% of the outstanding common stock.

#### 4. COMMITMENTS

At June 30, 1965 the unexpired portion of employment contracts with key employees totalled \$77,400 and the unexpired commitment on the Company's lease on its office space amounted to \$39,600.

## Auditors' Report to the Shareholders

### PRAIRIE OIL ROYALTIES COMPANY, LTD. Calgary, Alberta

We have examined the balance sheet of Prairie Oil Royalties Company, Ltd. as at June 30, 1965 and the related statement of income and retained earnings for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the company, the accompanying balance sheet and related statement of income and retained earnings are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company as at June 30, 1965 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

In accordance with Section 154 of the Saskatchewan Companies Act, we report that, in our opinion, all the transactions of the company that have come to our notice have been within the objects and powers of the company.

TOUCHE, ROSS, BAILEY & SMART

Calgary, Alberta  
September 10, 1965

Chartered Accountants

# PRAIRIE OIL ROYALTIES COMPANY, LTD.

## ANNUAL REPORT

For the Fiscal Year ended June 30, 1965

### BOARD OF DIRECTORS:

\*SENATOR JOHN B. AIRD, Q.C., *Toronto, Ontario*

\*G. S. BRANT, *Calgary, Alberta*

JACK COLES, *New York, New York*

M. H. FINNELL, *Calgary, Alberta*

BENJAMIN HEFFNER, *New York, New York*

\*JOSEPH H. HIRSHHORN, *Toronto, Ontario*

\*WINFIELD H. PERDUN, *New York, New York*

D. K. RUSSELL, *New York, New York*

C. W. TEMPLETON, *Calgary, Alberta*

D. M. TYERMAN, Q.C., *Regina, Saskatchewan*

J. D. WHITE, *Calgary, Alberta*

### OFFICERS:

SENATOR JOHN B. AIRD, Q.C., *Chairman of the Board of Directors*

G. S. BRANT, *President and General Manager*

J. D. WHITE, *Vice-President*

C. W. TEMPLETON, *Vice-President*

D. M. TYERMAN, Q.C., *Secretary*

C. J. JAMES, *Treasurer*

### HEAD OFFICE:

2236 *Albert Street, Regina, Saskatchewan*

### OPERATIONS OFFICE:

202, 805 - 8th Avenue S.W., *Calgary, Alberta*

### COUNSEL:

MACPHERSON, LESLIE & TYERMAN, *Regina, Saskatchewan*

SIMPSON THACHER & BARTLETT, *New York, New York*

### AUDITORS:

TOUCHE, ROSS, BAILEY & SMART, *Calgary, Alberta*

### TRANSFER AGENT & REGISTRAR:

CANADA PERMANENT TRUST COMPANY, *Regina, Saskatchewan*

### CO-TRANSFER AGENT & REGISTRAR:

THE ROYAL TRUST COMPANY, *Toronto, Ontario*

### CO-TRANSFER AGENT:

MORGAN GUARANTY TRUST COMPANY OF NEW YORK, *New York, New York*

### CO-REGISTRAR:

CHEMICAL BANK NEW YORK TRUST COMPANY, *New York, New York*

### STOCK EXCHANGE LISTINGS:

TORONTO STOCK EXCHANGE, *Toronto, Ontario*

AMERICAN STOCK EXCHANGE, *New York, New York*

\* Denotes member of Executive Committee

# ALBERTA

NORTHWEST TERRITORIES

BEAVER RV

PETITOT RV. AREA

P 1159

KOMIE

KOTCHO LK. AREA

YOYO AREA

CLARKE LK. AREA

FT NELSON

PROCESS PLANT

BRITISH COLUMBIA  
FORT NELSON AREA





